

Supplementary Information to the California Teleconnect Fund Compliance Examination of TelePacific Communications dated December 30, 2013

For the Years Ended June 30, 2011 and June 30, 2012



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Transmittal Letter

California Public Utilities Commission
San Francisco, California

Please find attached Crowe Horwath LLP's (Crowe's) consulting report on the potential subsequent impact of certain findings reported in an examination report, dated December 30, 2013, on TelePacific Communications' (TelePacific's) compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to program costs and cost related activities for the program year ended June 30, 2010. This consulting report addresses the potential impact of these findings on the CTF program for the program years ended June 30, 2011 and June 30, 2012.

Based on Crowe's analysis:

1. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific included the 0.11 percent CPUC User Fee to calculate the CTF discount claimed to the CPUC but failed to provide the discount to its CTF eligible customers.
2. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific claimed the CTF discount on thirteen (13) ineligible services during the examination period.
3. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific claimed its CTF discounts that were not properly supported by its detailed billing records, proper attribution and the appropriate time period.

Due to the non-compliance noted above, in total, \$70,382 of over payments were made by the CTF program for the program year ended June 30, 2011, and \$58,478 of over payments were made for the program year ended June 30, 2012. A summary of the over payments is provided in Attachment A of this report. Crowe recommends that TelePacific refund a total of \$128,860 (\$70,382 + \$58,478) to the CTF program.

This analysis was conducted in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). Because the supplementary information included in this report did not constitute an audit, review, or examination in accordance with standards established by the AICPA, Crowe does not express an opinion on the supplementary information contained in this report or on the compliance of TelePacific with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities for the program years ended June 30, 2011 and June 30, 2012.

Should you have any questions regarding this report, please contact Bert Nuehring, Partner, at (bert.nuehring@crowehorwath.com).



Crowe Horwath LLP

Executive Summary

As a result of the following non-compliance, TelePacific Communications (TelePacific) was reimbursed for over-claimed California Teleconnect Fund (CTF) program costs by \$70,382 for the program year ended June 30, 2011 and by \$58,478 for the program year ended June 30, 2012.

1. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific included the 0.11 percent CPUC User Fee to calculate the CTF discount claimed to the CPUC but failed to provide the discount to its CTF eligible customers.
2. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific claimed the CTF discount on thirteen (13) ineligible services during the examination period.
3. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific claimed its CTF discounts that were not properly supported by its detailed billing records, proper attribution and the appropriate time period.

Accordingly, TelePacific should refund to the CTF program a total of \$128,860 for the over claimed amounts.

Brief Background

The California Public Utilities Commission (CPUC) contracted with Crowe Horwath LLP (Crowe) to conduct an examination on TelePacific's compliance with the rules, regulations, and requirements of the CTF program solely related to program costs and cost related activities related to services provided (herein referred to as the examination report) for the program year ended June 30, 2010 (herein referred to as the examination period). Crowe examined TelePacific's compliance with the applicable requirements of the CTF program solely related to program costs and cost related activities associated to services provided during the program year ended June 30, 2010. On December 30, 2013, Crowe issued its examination report regarding TelePacific's compliance. This report contains the results of consulting services performed by Crowe to determine the monetary impact of the findings noted in the examination report to the program years ended June 30, 2011 and June 30, 2012.

Scope

The examination report noted a total of six (6) findings related to TelePacific's compliance with the CTF program requirements for the program year ended June 30, 2010. Three (3) of these findings had monetary impacts to the CTF program. Per the CPUC's request, Crowe analyzed these five findings (as shown below) for the program years ended June 30, 2011 and June 30, 2012.

1. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific included the 0.11 percent CPUC User Fee to calculate the CTF discount claimed to the CPUC but failed to provide the discount to its CTF eligible customers.

2. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific claimed the CTF discount on thirteen (13) ineligible services during the examination period.
3. TelePacific failed to demonstrate compliance with Decision 96-10-066. Specifically, TelePacific claimed its CTF discounts that were not properly supported by its detailed billing records, proper attribution and the appropriate time period.

Objectives

Crowe's objectives in analyzing the findings were to:

1. Determine the accuracy of the CTF program discounts that TelePacific provided to its customers and subsequently claimed against the CTF program as reimbursement: and
2. Calculate any over-claimed or under-claimed amounts.

Crowe derived the criteria by which to measure these objectives from the CPUC's CTF program directives including Assembly and Senate Bills, Rulemakings, Decisions, Resolutions and Administrative Letters governing the CTF program.

Methodology

Crowe analyzed the aforementioned monetary findings for the period of July 1, 2010 through June 30, 2011 and the period July 1, 2011 through June 30, 2012. When a finding involved a limited subset of CTF customers, Crowe determined the monetary impact for these specific customers in each program year. When a finding involved an exception that was systemic in nature, Crowe determined the monetary impact for all customers in each program year.

To analyze each finding, Crowe completed an analysis on data provided by TelePacific. For this analysis, Crowe requested that TelePacific provide supporting documentation for its CTF claims made for the periods July 1, 2010 through June 30, 2011 and July 1, 2011 through June 30, 2012. In response, TelePacific provided the following documents:

- '2010-11 FY' and '2011-12 FY', which contain CTF customer service quantities and service prices, E-rates, and CPUC User Fees for most of its CTF customer across the respective years;
- '2010-2011 FY Addl Data Set 1 of 2' and '2011-2012 FY Addl Data Set 1 of 2', which contain CTF customer service quantities and service prices, E-rates, and CPUC User Fees for a subset of its CTF customer across the respective years. These customers had data stored on a separate billing system;
- '2010-2011 FY Addl Data Set 2 of 2' and '2011-2012 FY Addl Data Set 2 of 2', which contain CTF customer service quantities and service prices, E-rates, and CPUC User Fees for a subset of its CTF customer across the respective years. These customers had data stored on a separate billing system.

In addition to the above-mentioned data elements, Crowe requested and obtained the following items:

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1. A random selection of twelve (12) CTF customer invoices spanning both program years for three (3) customers (Application #'s 1480, 2445, and 2522) pertaining to Finding 3 under the "Scope" section above from TelePacific;
2. Copies of TelePacific's CTF monthly claims from the CPUC.

Crowe developed and populated data files that captured information from TelePacific's data submissions, including 2010-2011 and 2011-2012 CTF monthly claim amounts, CTF customer services, service prices, E-rates, and surcharges and taxes. Crowe also incorporated into these data files information obtained from the CPUC.

Crowe then tested the information collected in these data files in the following manner:

1. Crowe tested that the billing detail files were complete by comparing the CTF discounts generated from TelePacific's billing systems against the CTF monthly claims
2. Crowe tested whether a CPUC User Fee of .11 percent (or other amount) was used in the calculation of the CTF discounts for the fiscal years ended June 30, 2011 and June 30, 2012.
3. Crowe tested the datafiles for the specified ineligible services.
4. For each invoice selected for testing, Crowe tested services and service prices by comparing the amount billed for eligible services to those used in the datafiles.
5. Crowe tested the Excel formulas that TelePacific used to recalculate the CTF discounts, looking to identify anomalies that might indicate problems with TelePacific's data and/or errors in TelePacific's methodology.

The analysis was conducted in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). Because the analysis did not constitute an audit, review, or examination in accordance with standards established by the AICPA, Crowe does not express an opinion on the compliance of TelePacific's with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to program costs and cost related activities for the program years ended June 30, 2011 and June 30, 2012.

Results of Procedures

In analyzing the impact of the findings to the two subsequent program years, Crowe found that:

- 1) TelePacific over claimed \$70,382 in reimbursements from the CTF Program for FY 2010-11; and
- 2) TelePacific over claimed \$58,478 in reimbursements from the CTF Program for FY 2011-12.

Provided below is a summary of each finding included in the scope and Crowe's analysis of each finding that results in a potential CTF over payment for program year 2011 and 2012. **Attachment A** to this report provides a schedule of CTF over payments by program year and by each examination report finding.

Finding 1: CPUC User Fee Claimed for Reimbursement

Examination Report - TelePacific added an additional 0.11 percent to the CTF discount provided to its CTF eligible customers (referred to “CPUC User Fee” in the billing detail file) when submitting claims for CTF reimbursement. TelePacific collects 100 percent of the .11 percent CPUC User Fee from the customer and remits that amount to the CPUC, but because TelePacific did not provide a CTF discount on the CPUC User Fee to its customers, TelePacific is not be entitled to reimbursement for the amount.

2011 and 2012 Analysis - Based on Crowe’s analysis, TelePacific claimed reimbursement for the CPUC User Fee for the fiscal years ended June 30, 2011 and June 30, 2012. Crowe tested this by reconciling TelePacific’s calculations of its CTF discounts in its billing detail files against its CTF monthly claims, and noting that the CPUC User Fee was included in the CTF discount calculation. This resulted in an over claim of \$9,843 for program year 2011 and an over claim of \$12,336 for program year 2012. Crowe also tested a sample of customer invoices during program year 2011 and 2012 and the CTF discount on the CPUC User Fees was not provided to these customers.

Finding 2: Ineligible Services Claimed

Examination Report - TelePacific claimed a CTF discount for 13 services that were ineligible for the CTF program. These services were variants of the Auto Attendant, Colocation Cabinet Rental and Tier Equipment Upgrades services.

2011 and 2012 Analysis – Crowe examined the billing detail for all customers and found instances of the CTF discount being claimed on the Auto Attendant, Colocation Cabinet Rental, and Tier Equipment Upgrades services. Crowe tested this by reconciling TelePacific’s calculations of its CTF discounts its CTF monthly claims for these customers. This resulted in an over claim of \$60,508 for program year 2011 and an over claim of \$45,938 for program year 2012.

Finding 3: Claimed Amounts Not Supported by Billing Records

Examination Report – Three (3) TelePacific customers had CTF reimbursements on the monthly claim forms that were not supported by the detailed billing records. Since the discount claimed exceeded the amount supported by TelePacific’s billing records, the excess amount claimed was deemed to be an over claim to the CPUC. These three customers were CTF Application #'s 1480, 2445 and 2522.

2011 and 2012 Analysis – Crowe tested the billing detail for these three customers for the years ended June 30, 2011 and June 30, 2012 using the 12 randomly selected invoices (4 invoices per customer). Crowe found instances of claimed CTF discounts that were not supported by the billing records. This resulted in an over claim of \$31 for program year 2011 and an over claim of \$204 for program year 2012.

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Attachment A – CTF Over Payments by Program Year

Examination Report Findings			CTF Over Payments		
No.	Title	Description	Examination Period	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2012
1	CPUC User Fee Claimed for Reimbursement	TelePacific included the 0.11% CPUC User Fee to calculate the CTF discount claimed to the CPUC	\$ 6,186	\$ 9,843	\$ 12,336
2	CTF Discount not Provided to Customers*	Some customers did not receive CTF discounts on eligible services provided by TelePacific	\$ -	\$ -	\$ -
3	Ineligible Services Claimed	TelePacific claimed the CTF discount on 13 ineligible services during the examination period	\$ 32,022	\$ 60,508	\$ 45,938
4	Claimed Amounts not Supported by Billing Records or Customer Invoices	The CTF discount for 1 customer invoice disagreed to the detailed billing/claims records; the CTF discount for 3 customers in the detailed billing disagreed to the claims; for the 10 adjusted claims for 2009-10, TelePacific took the CTF discount on services billed before or after the examination period	\$ 3,252	\$ 31	\$ 204
5	CTF Monthly Claim Form Errors*	TelePacific listed 7 customers with inaccurate names/application numbers on at least 1 claim form and transposed/omitted information on 2 Customer Report tabs	\$ -	\$ -	\$ -
6	Reimbursements Claimed Prior to CTF Eligibility*	One customer received CTF discounted services prior to becoming CTF eligible	\$ 82	\$ -	\$ -
Total Over Payments			\$ 41,542	\$ 70,382	\$ 58,478

* - Findings excluded by the CPUC from the scope of this analysis.